**Gina Harrison**
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**PACIFIC TELESIS.**
Group-Washington

DOCKET FILE COPY ORIGINAL

September 13, 1995

EX PARTE OR LATE FILED

**EX PARTE**

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

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SEP 13 1995
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Dear Mr. Caton:

Re: *MM Docket No. 94-131 - Amendment of Parts 21 and 74 of the Commission's Rules with Regard to Filing Procedures in the Multipoint Distribution Service and in the Instructional Television Fixed Service; PP Docket No. 93-253 - Implementation of Section 309(j) of the Communications Act - Competitive Bidding*

Please associate the attached material with the above-referenced proceedings.

We are submitting two copies of this notice in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

cc: Rudolfo M. Baca
Sharon Bertelsen
Jackie Chorney
William H. Hassinger
Barbara A. Kreisman
Evan R. Kwerel
Keith Larson
Blair Levin
Jonathan D. Levy
Jane Mago
Mary P. McManus
Robert M. Pepper
Jeanine Poltronieri
Gregory Rosston
Cathy Seidel
William Sharkey
Lisa Smith
Roy J. Stewart
John R. Williams
Amy Zoslov

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Enclosures (3)

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Washington, D.C. 20004
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PACIFIC TELESIS.
Group-Washington

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

September 13, 1995

Dear Messrs. Stewart and Pepper:

Recently, representatives of Pacific Telesis Enterprises visited with various FCC staff members, including yourselves, to introduce ourselves in the context of (1) our determination to operate a state-of-the-art (in terms of technology and programming) wireless cable service in southern California and (2) the MDS auction proceeding (MM Docket. 94-131 and PP Docket. 93-253).

In various of those meetings, we made the point, reflected in our petition for reconsideration and clarification filed in that proceeding, that the benchmark for qualifying for designated entity bidding privileges should be substantially lowered. We supported that position with two arguments. First, we pointed out that the capital requirements for wireless cable are a fraction of what they were for broadband PCS; yet the designated entity benchmark is proposed to be the same. Exhibit A hereto further documents that point. See also "Wireless Sale Winners", *Wall Street Journal* (March 14, 1995), Exhibit C attached.

Second, we urged that an unduly high benchmark would frustrate the purpose of the designated entity policy. Exhibit B hereto documents that point, showing among other things, that all publicly traded wireless cable operators would qualify, except us and potentially CAI Wireless/ACS Wireless, subject to investment by BANX, a joint venture of Bell Atlantic and Nynex. Therefore, the truly small operator would receive no comparative advantage under a designated entity program that included the currently specified $40 million benchmark.

If you have any questions about this information, please do not hesitate to contact the undersigned.

Respectfully submitted,

Thomas McKeever

Thomas McKeever
Manager, Strategic Planning
Pacific Telesis Enhanced Service

**Exhibit A - MMDS Infrastructure Costs/pop vs. PCS Infrastructure Costs/pop**

| | Infrastructure Cost/Pop | |
|---|---|---|
| **System Components** | **MMDS** | **Broadband PCS** |
| Satellite Receivers | $0.10 | - |
| Routing Equipment* | 0.20 | - |
| Digital Encoding Equipment | 0.70 | - |
| Switching Equiment | 0.04 | $1.40 |
| Software and Near Video on Demand Server | 0.10 | - |
| Towers, Antennas, Racks etc. | 0.03 | - |
| Modulation Equipment | 0.02 | - |
| Site Acquisition/Preparation | 0.10 | 4.70 |
| Base Station & Controllers | - | 11.10 |
| Microwave Relocation | - | 1.90 |
| Other | - | 2.00 |
| **Total Infrastructure Cost** | $1.30 | $21.00 |

**Notes:**

Pop = potential subscribers, corresponds to population of approximately 11.8 million for Los Angles and Orange County in 1994.

PCS infrastructure costs and pops (potential subscribers) correspond to the Los Angeles market.

MMDS infrastructure costs and pops correspond to the combined Los Angles and Orange County market.

* Routing Equipment includes components such as microwave transmitters, fiber routing, transmitters, repeaters.

## Exhibit B - Public Company Statistics

| | Gross LOS HH (4/95E) (000s) (a) | Subsribers (3/31/95) (000s) (a) | 3 yr. Avg Rev 1992-1994 (in 000s) (b) | Gross Revenue 1995E (a) | Gross Revenue 1994 (000s) (b) | Gross Revenue 1993 (000s) (b) | Gross Revenue 1992 (000s) (b) |
|---|---|---|---|---|---|---|---|
| **ACS Enterprises** | 2,700 | 78.7 | $9,631 | NA | $17,739 | $6,490 | $4,664 |
| **CAI Wireless** | 7,721 | 32.9 | NA | 5,147 c | $918 d | NA | NA |
| **CAI Wireless/ACS Enterprises** | 12,454 e | 113.6 e | NA | 16,778 e | 18,513 e | NA | NA |
| **American Telecasting** | 5,340 | 127.5 | 10,780 | NA | 21,629 | 7,178 | 3,534 |
| **CableMaxx** | 1,375 | 32.7 | 5,145 | NA | 7,709 | 4,553 | 3,172 |
| **Heartland Wireless** | 6,061 | 31.1 | 1,101 | 19,263 | 2,229 | 869 | 205 |
| **People's Choice** | 4,502 | 54.1 | 7,442 | NA | 12,557 | 5,780 | 3,989 |
| **Preferred Entertainment** | 2,275 | 22.2 | 3,348 | NA | 4,583 | 2,781 | 2,679 |
| **Wireless Cable of Atlanta** | 4,012 | 17.0 | NA | NA | 2,869 | 2,249 | NA |
| **Cross Country Wireless (f)** | 650 | 42,000 | 13,891 | NA | 16,136 | 14,751 | 10,787 |

Notes:

LOS = Line of Sight

HH = Household

E = estimated

a. Source: Gerard Klauer Mattison & Co.

b. Based on financial data taken from latest Company SEC 10K filings.

c. Data for the year end March 31, 1995. Source: SEC 10K filing 3/31/95

d. Data for the seven-month period ended March 31, 1994. Source: SEC 10K filing 3/31/95

e. Pro forma to include acquisition of ACS Enterprises and Baltimore, Pittsburgh and Washington markets.

f. Cross Country Wireless is now a wholly owned subsidiary of Pacific Telesis.

**Wireless Sale Winners Include AT&T, Sprint**
**`Personal Communications Services' Auction Ends; Bids Topped $7 Billion**
By Gautam Naik and Daniel Pearl
The Wall Street Journal
03/14/95

The federal government's high-stakes auction of licenses to offer a new generation of wireless "personal communications services" ended yesterday with a few telecommunications giants pledging the lion's share of more than $7 billion in final bids.

The biggest winners included Sprint Corp.'s partnership with three big cable operators; AT&T Corp.; a consortium of three Baby Bells and AirTouch Communications Inc. of San Francisco; and Pacific Telesis Group, the California regional Bell company.

The auctions will spur the construction of at least three competing coast-to-coast wireless networks, which could lower prices of cellular service and allow consumers to place calls and zap data messages over the airwaves in about three years.

"We're pleased as punch" with the outcome of the auctions, said Reed Hundt, chairman of the Federal Communications Commission, which won kudos for its handling of the auction rules and procedures. The success of the auctions, in fact, could embolden the FCC to auction other licenses for taxicab-dispatch services, video services and telephone numbers, Mr. Hundt said. The chairman said he'd like to have the FCC act as "the federal auction commission."

Sprint and its cable partners, including Tele-Communications Inc., Cox Enterprises Inc. and Comcast Corp., were the top bidders, ponying up a total of $2.11 billion for 29 markets, including the prized New York market. The team's strategy was to win licenses in markets where the partners already had major cable holdings.

"We want to turn cable into local phone service" and offer about 180 million potential customers one-stop shopping for telephone and video services, said Gary Forsee, interim chief executive officer of the Sprint-cable team.

AT&T was the second-highest bidder, and it put up $1.68 billion to fill out the reach of McCaw Cellular Communications Inc., which it acquired last year. In landing licenses for 21 markets, AT&T more than doubled its potential customer base for wireless services to 200 million people, or 80% of the U.S.

"This enables us to build a nationwide network" and begin offering services in several key markets by 1997, said Steven Hooper, president of McCaw. AT&T plans to extend its coverage by allying with small businesses, women, minorities and rural companies, which begin bidding on special set-aside licenses in about six weeks.

The third-highest bidder, a team made up of Nynex Corp., Bell Atlantic Corp., U S West Inc. and AirTouch, bid a total of $1.11 billion for 11 markets, including Chicago, Dallas and Miami, filling in key gaps in the team's current cellular holdings. The partnership plans to begin offering new PCS services within 18 months and to complete a nationwide network in two years, said George Schmitt, president of the partnership.

Pacific Telesis agreed to pay a similarly lofty sum for just two markets, bidding $696 million to win a ferocious bidding war for the Los Angeles and San Francisco license with wireless entrepreneur Craig O. McCaw.

Those lofty dollar figures, however, cover only the cost of the license, and the winners will have to spend billions more to actually build the wireless networks. To construct the new all-digital networks, PCS carriers will have to spend anywhere from $15 to $30 per potential customer, according to analysts' estimates. Thus the Sprint-cable team could be expected to invest another $2.7 billion to $5.4 billion beyond the cost of the license before it can offer extensive service to all customers.

PCS bidders must now lease or acquire thousands of sites for constructing PCS radio "cells," often in the face of objections from local zoning boards and neighborhood groups. They also must persuade dozens of utilities and other companies currently using the PCS part of the radio spectrum to migrate to other frequencies. "It's a logistical challenge," said Mr. Forsee.

While the PCS auctions may be good news for price-conscious consumers, the players could suffer. As many as seven wireless carriers, including two incumbent cellular operators, are expected to compete for new subscribers, possibly triggering fierce price wars and lower revenue per subscriber.

"The ferociousness of the bidding will be followed by equally ferocious competition, and some players could go extinct," said Carl R. Aron, analyst at EDS Management Consulting Services. He warns of a "coming wireless ice age" resulting from too many players and intense competition.

Three companies, Cox Enterprises, Omnipoint Corp. and American Personal Communications Inc., have an edge: they previously received cheaper "pioneer preference" licenses for PCS services. Cox Enterprises would get a Los Angeles license for almost half as much as Pacific Telesis had to pay, and American Personal Communications would pay less than half the price AT&T has offered for a license in Washington D.C.

Senate Majority Leader Robert Dole (R., Kan.), has been critical of the pioneer awards, and some rival bidders, including PacTel, may push for a change requiring the three companies to pay more than the combined $700 million they would have to pay under current terms.

The winners of the 99 PCS licenses have until March 20 to turn over a down payment equal to 20% of their high bids to the U.S. Treasury; the remainder is due when the licenses are issued in about three months.

Auction Wrap-Up: Top PCS bidders

-- Wireless Co. L.P. (Sprint Corp. and three cable companies): $2.11 billion for 29 markets, including New York, San Francisco, Detroit, Dallas, Boston.

-- AT&T Corp.: $1.68 billion for 21 markets, including Chicago, Detroit, Charlotte, Boston and Philadelphia.

-- PCS Primeco (Bell Atlantic Corp., Nynex Corp., U S West Inc. and Airtouch Communications): $1.11 billion for 11 markets including Chicago, Dallas, Tampa, Houston and Miami.

-- Pacific Telesis Group: $696 million for Los Angeles and San Francisco.